Cornerstone Bank

Dear Gentleman:

I have read the section of your Risk-Based Premium Proposal dealing with higher premiums for what you are terming “new banks” (7 years old or less)

I am very dismayed that you are using the older regulatory logic that simply because a bank or an FSB is younger makes it a less safe bank. That was probably a true statement for the deNovo wave of the 1970’s and 1980’s but is frankly, in my opinion, is not true anymore.

In Georgia, to my knowledge no Bank under 7 years old has failed in the last 10 years. Frankly most have reached a point where they were sold at a nice profit for their shareholders

As I understand it, your basic logic for the higher premium is as follows:

<u>“They have a higher failure rate than established institutions”</u>

My response: If you move your calculations to the middle and late 1990’s Banks, I believe you will see they have no higher failure rate that other Banks (if for no other reason that they are easy to sell due to their smaller size)

<u>“Have financial information that is harder to interpret and is less meaningful”</u>

My response: If you have questions about a Bank contact that Bank’s primary regulator and they will get you to the Examiner responsible for that Bank that can answer your questions. I know that in recent years the OCC has tested the thesis that new banks are more risky and came up with no evidence that such a statement is true.

<u>“Undergo rapid changes of scale and scope of operations, often causing their financial ratios to be fairly volatile”</u>

My response: My answer to that is issue is that the premise is true, but you do not go on to ask if that really matters as to safety or soundness when all is said and done. Frankly we are all still here and we are regularly Audited and Examined and our ratings stay in the 1 and 2 categories. Is there a problem in the central staff believing their field examiners? I have been in Community Banking since the early 1990's. My first two Community Banks were 1 rated Banks when I left them and I currently work for a 6 year old Thrift that has a good shot at a 1. I would suggest to you that these three Banks were not any higher risk than an older Bank. My operation manager is a 20 year veteran from Bank of America; my Senior Credit Officer was a Federal Reserve Examiner for over 10 years, I was the Controller and General Auditor of a 12 billion dollar asset Bank and was there 19 years. Where do you think we former regional bankers work now? Many of us that were too young to retire work at Community Banks.

"Have unseasoned loan portfolios, making it difficult to assess credit risk based solely on current financial ratios"

My response: I cannot speak for other states but when I attend a Community Bank Conference in Georgia, I find it filled with individuals that have had long careers at very large Banks or were trained at those same Banks. The point of that statement is that the many of the customers they bring to the new Banks, are new to that younger Bank, but not new credits. Our portfolio is filled with loans our Officers moved from other financial institutions. In almost all cases the credits are 5-10 years old. I have one credit that has been in place, through several banks, that is over 40 years old and has never even been late on a payment!

I have no idea if my comments will matter in the grand scheme of this issue, but I would ask if you would consider them. I believe that when you try to paint a fine picture, you should not use a broad brush.

Respectfully,

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